

Message Text

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ACTION EB-07

INFO OCT-01 EA-10 ISO-00 RSC-01 /019 W

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R 180835Z DEC 74

FM AMEMBASSY MANILA

TO USDA/FAS/WASHDC

INFO SECSTATE WASHDC 9230

UNCLAS MANILA 14861

FOR STEVENSON/COTTON DIV/FCA

SUBJECT: COTTON DEMAND PROSPECTS

REF: FASTO CIRCULAR 487

TOFAS 140.

1. CONSUMPTION OF COTTON FOR 1974-75 IS NOW ESTIMATED AT ABOUT 110,000 BALES COMPARED TO 173,000 BALES IN 1973-74 AND A LITTE OVER 140,000 BALES IN 1971-72 AND 1972-73 MARKETING YEARS.

2. THE MOST SIGNIFICANT FACTORS AFFECTING CONSUMPTION ARE INFLATION AT A RATE OF 30 PERCENT OVER THE PAST 12 MONTHS PERIOD, LOW WAGE SCALES, TYPHOON DAMAGE IN CENTRAL LUZON, A MAJOR MARKET AREA, HAS REDUCED INCOME AND SHIFTED PURCHASING PRIORITIES, UNSTABLE COST OF RAW MATERIALS FOR TEXTILE PRODUCTION, AND HIGHER FUEL-ELECTRICITY COST.

3. PRIOR TO SEPTEMBER OF 1974 TEXTILE MILLS WERE RUNNING 21 EIGHT HOURS SHIFTS A WEEK. NOW MILLS ARE AVERAGING ABOUT 15 EIGHT SHIFTS PER WEEK, AN APPROXIMATE 30 PERCENT REDUCTION IN OPERATING TIME. ADDITIONALLY, NEARLY ALL MILLS SHUT DOWN COMPLETELY FOR THE CHRISTMAS HOLIDAYS AROUND DEC. 6 AND THEY DO NOT PLAN TO RESUME OPERATIONS UNTIL JANUARY 6 OR LATER. PHILIPPINE TEXTILE MILLS NORMALLY SHUT DOWN FOR ABOUT TWO WEEKS FOR HOLIDAY AND MILL OVERHAUL AND REPAIR DURING THE CHRISTMAS SEASON. WHEN OPERATIONS RESUME IN JANUARY THE LEVEL OF ACTIVITY IS EXPECTED TO CONTINUE AT 15 SHIFTS PER WEEK. THIS REDUCED LEVEL OF OPERATION S IS

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EXPECTED TO CONTINUE UNTIL OCTOBER OR NOVEMBER 1975 AND ANY

INCREASE IN MILL ACTIVITY AT THAT TIME WILL DEPEND ON PREVAILING ECONOMIC AND MARKET CONDITIONS.

4. THE ANTICIPATED UPTURN IN THE TEXTILE INDUSTRY IS TIED TO HARVEST OF MAJOR CROPS. ABOUT 85 PERCENT OF ALL LOCALLY MANUFACTURED TEXTILES ARE CONSUMED IN THE PHILIPPINES AND 70 PERCENT OF DOMESTIC CONSUMPTION IS CONSUMED BY THE RURAL POPULATION.

5. TEXTILE MILLS NORMALLY CARRY ABOUT A TWO-MONTH SUPPLY OF FINISHED TEXTILES. THE TEXTILE MILLS ASSOCIATION ESTIMATES CURRENT STOCKS TO BE EQUIVALENT TO ABOUT A 4-MONTH SUPPLY. RAW COTTON STOCKS ARE ESTIMATED TO BE 49,000 BALES. WE ESTIMATE THAT MILL CONSUMPTION OF RAW COTTON IS ABOUT 9,000 BALES A MONTH FOR THE MONTHS OF AUGUST THROUGH NOVEMBER COMPARED TO THE LATEST 3-YEAR AVERAGE CONSUMPTION OF NEARLY 13,000 BALES A MONTH. OVER 37,500 BALES OF COTTON WERE IMPORTED DURING THIS SAME 4-MONTH PERIOD. THEREFORE, COTTON STOCKS HAVE ACTUALLY INCREASED OVER AN ALREADY RECORD HIGH INVENTORY. THESE IMPORTS WERE PAID FOR WITH FREE DOLLARS COMMITTED BY LETTERS OF CREDIT PRIOR TO MID-AUGUST 1974 WHEN FREE DOLLARS WERE SHUT OFF IN FAVOR OF USE OF THE CCC CREDIT LINE WHICH IS JUST NOW GETTING UNDERWAY BUT IS NOT BEING UTILIZED BY A SUBSTANTIAL NUMBER OF MILLS. SOME MILLS HAVE DIFFICULTY MEETING THE FINANCIAL REQUIREMENTS TO IMPORT BUT CERTAINLY HEAVY RAW COTTON INVENTORIES ARE A MAJOR PART OF THE PROBLEM.

6. TEXTILE DEMAND AT RETAIL LEVEL IS ESTIMATED TO BE OFF BY 20 TO 40 PERCENT DEPENDING ON THE AREA, TYPE, AND QUALITY OF CLOTHING. DENIMS AND CERTAIN OTHER POPULAR TEXTILES WITH APPEAL TO YOUTH ARE STILL MOVING. BUSINESS IS NOT AS BAD IN THE CITIES AS IT IS IN RURAL AREAS.

7. COMPETITION FROM MAN-MADE FIBERS IS BECOMING A MORE SIGNIFICANT FACTOR AS PRICES FOR THESE ITEMS CONTINUE TO DECLINE. RAYON WILL SUPPOSEDLY SUBSTITUTE EASILY FOR COTTON IN THE PHILIPPINES IF THE PRICE IS RIGHT. WE HAVE HEARD RECENTLY OF RELIABLE QUOTES OF 45 TO 50 CENTS A POUND FOR RAYON AND RUMORS OF PURCHASES AT PRICES AS LOW AS 31 CENTS A POUND. NYLON IS AVAILABLE AT 51 CENTS AND POLYESTER AT 55 CENTS.

8. SINCE THE PHILIPPINES EXPORTS LESS THAN 15 PERCENT OF ITS
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TEXTILES, THERE IS VERY LITTLE CONCERN EXPRESSED ABOUT THE INTERNATIONAL MARKET. PERHAPS THIS IS DUE TO EXTREME CONCERN OVER THE DOMESTIC SITUATION.

9. UPON OUR REQUEST, DBP HAS INITIATED A TELEPHONE SURVEY OF ALL MILLS TO DETERMINE: (1) QUANTITY OF TEXTILES IN MILL INVENTORY AS OF DEC. 1, (2) A DEC. 1 INVENTORY OF RAW COTTON STOCKS, AND (3) CURRENT MONTHLY RATE OF CONSUMPTION BY MILL. THIS INFORMATION

WILL BE FORWARDED TO WASHINGTON AS SOON AS IT IS AVAILABLE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COTTON, CONSUMPTION, DATA, TEXTILE INDUSTRY
Control Number: n/a
Copy: SINGLE
Draft Date: 18 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA14861
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740368-0151
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741226/aaaaavxs.tel
Line Count: 116
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 74 FASTO CIRCULAR 487
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 03 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 OCT 2002 by ReddocGW>; APPROVED <08 JAN 2003 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COTTON DEMAND PROSPECTS
TAGS: EPAP, RP
To: AGR
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005